The Social and Financial Performance of Conventional and Islamic Microfinance Institutions in Pakistan

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Abstract:
The financing operations of conventional microfinance institutions are usually based on interest (Usury/Riba) which is strictly prohibited by the Shariah of Islam, therefore, some Islamic microfinance institutions were set up in Pakistan to provide micro credit and other financial help to the deserving people based on Shariah compliant mechanism. The aim of this paper is to evaluate and compare the social and financial performance of these microfinance institutions in Pakistan. Two separate samples containing two microfinance institutions each, representing conventional and Islamic microfinance institutions has been selected for this study. Four stars, Wasil Foundation and Akhuwat from Islamic microfinance institutions while Asasah and Community Support Concern (CSC) from conventional microfinance institutions, rated by Mix market have been selected for this research paper. The social and financial performance based on outreach, profitability, efficiency/productivity, and portfolio quality of both these microfinance institutions were studied and compared. The study revealed that Islamic MFIs were more cost effective compared to conventional MFIs based on cost per borrower (CPB) and operating expenses to assets (OEA), while on the basis of financial efficiency conventional MFIs performed well. Though the financial and social performance of both Islamic and conventional MFIs have improved over the passage of time, still they have to struggle hard on various fronts especially to improve their profitability based on ROA and ROE measures to make the institutions profitable and sustainable. This study reveals that the successful operation of Akhuwat and Wasil Foundation for the last more than a decade latterly proves that Islamic MFIs are viable and sustainable even in the absence of charging interest from their clients. So, the society and the government should encourage and promote these Shariah compliant organizations in order to help the extremely marginalized people of the society.

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1. Introduction

Both poverty and the poor are undeniable reality of third world countries since long. In order to reduce the intensity of poverty and the number of the poor, microfinance programs and movements were initiated in Asia at early 70s; however, this sector received considerable attention after the success stories of Grameen bank of Bangladesh.

The term microfinance means the provision of credit, loans, saving vehicles and other related financial services made available to poor and vulnerable people who might otherwise have no access to them or could borrow only on highly unfavorable terms.[1] Microfinance refers to the financial services provided to people who farm or fish or herd; who operate microenterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban.[2] The institutions and organizations that specialize in delivering the services of microfinance in various ways according to their own institutional rules and regulations are known as microfinance institutions.[3] The main objective of microfinance institutions (MFIs) is alleviation of poverty by making credit and other financial services available to the poor and marginalized sections of our society to make them able to live a decent life in a sustainable way. According to Muhammad Yunus, all human beings are inherently entrepreneurs; however, some get the opportunity to find this out, but some never get this opportunity.[4] He was convinced that if financial help and easy access to credit is given to poor and marginalized people, they can move out of the vicious circle of poverty and contribute to economic progress. To prove this hypothesis, he gave loans equivalent to 27 US$ to 42 persons in 1976 to make them able to contribute to their own economic progress. The poor successfully utilized the loans for productive and income generating purposes. Subsequently, Muhammad Yunus repeated this experiment and came to the conclusion that microcredit can be used an instrument against poverty. Later on, he established a microfinance bank—Grameen Bank, a pioneer in the field of conventional microfinance.[5]

Extending social and financial help to poor and marginalized sections of the society is not a new concept. It exits since long. This task was initially entrusted to some governmental departments of the newly established country Pakistan. For this purpose, Agricultural Development Bank of Pakistan (ADBP) was established in Feb, 1961 by merging two institutions namely Agricultural Development Finance Corporation and Agricultural Bank of Pakistan.[6] Some studies suggest that poverty increases if the performance of agricultural sector is poor. Therefore, the government of Pakistan decided to revitalize the agricultural sector in order to contain the spread of poverty. To revitalize agricultural sector, the government decided to establish the bank to provide subsidized financial services and short term credit to the poor farmers and agriculturists. The huge demand for financial help from self-employed micro-entrepreneurs has been

ignored by the formal financial sector while credit for agricultural sector has been given high priority especially during the second half of the twentieth century.[7]

To improve the living standard of the rural poor people, the government initiated Village AID program in 1953. The program was to channelize badly needed technical and material assistance to cottage and other small scale industries. Besides, the program was to provide more schools and health facilities to the underdeveloped and neglected people living in rural areas of Pakistan. The Village AID program was abandoned in 1962 by entrusting the responsibilities to Provincial agricultural departments and basic democracies institutions.[8]

To reduce the intensity of poverty in Pakistan, two conventional rural support programs (RSPs), Agha Khan Rural Support Program (AKRSP) and the Orangi Pilot Project (OPP), were established in the decade of 80s. The model of AKRSP was implemented in the whole country in the decade of 90s with the establishment of National Rural Support Programs (NRSPs) and the Sarhad Rural Support Program (SRSP).[9] These rural support programs placed a strong emphasis on helping the marginalized people through subsidized loans and other financial services needed for the uplift of their standard of life.[10]

The government of Pakistan, however, realizing the need and importance of microfinance as a poverty reduction strategy, launched microfinance sector development program (MSDP) in the year 2000 with the prime objective to provide the financial services to the poor on sustainable basis.[11] As a result of this program, the government of Pakistan on 12th August 2000 set up the first microfinance bank—Khushhali Bank (KB), to provide conventional subsidized credit with or without collateral security in cash or in kind to poor people.[12] Then microfinance institutions ordinance was promulgated in 2001 to provide a separate regulators framework especially for microfinance sector.[13]

There is no doubt that the government of Pakistan has recorded an unprecedented growth in microfinance sector. This substantial growth has been possible due to a conducive policy and regulatory framework as well as supportive investments undertaken by the government of Pakistan towards the development of this sector.[14] Presently, these financial services are being provided to the poor by various governmental and private organizations and institutions like commercial banks, rural support programs, microfinance banks, NGOs, non-profit organizations (NPOs), microfinance institutions including conventional and Islamic and some others. However, still there is a huge gap between the demand for and the provision of these financial services to the poor.

The outreach of microfinance institutions is only 4 to 7 percent of the total potential market of 25 to 30 million borrowers.[15] The government of Pakistan has set a target of reaching 10 million microfinance customers by the year 2015.[16] Two out of many reasons for the gap can be presented here. One, that the number of people who are living in poverty is large especially in rural areas and secondly, there are many potential deserved clients who decline the conventional microfinance credits and loans due to non-compliance with Shariah of Islam.

Moreover, the conventional microfinance schemes of operations based on interest (Riba) are prohibited in Islam and thus, cannot be used by and for the Muslims.[17] So, there is a huge attractive market for Islamic microfinance institutions in Pakistan. Islamic microfinance institutions are the organizations that can play a role in bringing down the gap and provide opportunity to those potential clients who do not want to avail the services offered by conventional microfinance institutions. Moreover, Islamic microfinance is suitable for Pakistan not only because of the predominantly Muslim population but also because of the focus on the creation of a just economic system.[18] Rather it is the Islamic economic principles of justice which requires to alleviate poverty and to enable the poor people to make them able by providing financial services to lead an honorable and a decent life.

Generally, it seems that Islamic microfinance institutions heavily rely on subsidies and grants and the prime objective of these organizations is to provide microfinance services to the poor without taking into consideration the profitability and sustainability of these institutions which may hamper the outreach in the long run. However, subsidies and grants should be restricted for all those institutions including both Islamic and conventional who intended to provide micro financial services in the poor and resource deficit regions.[19] The present comparative study is conducted to highlight the social and financial performance of Islamic and conventional microfinance institutions in Pakistan and to present some suggestions and recommendations for enhancing the profitability, sustainability, efficiency and outreach of Islamic microfinance institutions. The study is of high importance because both Islamic and conventional MFIs use and provide scarce funds, public or private, for the alleviation of poverty to make able the poor people to live a dignified life. Therefore, both these two types of MFIs in Pakistan must be financially sound to sustain over a longer period of time to serve the excluded and marginalized poor people of the society.

II. Literature Review:

There is a dearth of theoretical and empirical literature highlighting the various aspects including the financial and social performance of microfinance institutions (MFIs) all over the globe. The research studies adopted various methodologies and statistical techniques to evaluate the performance of these organizations especially during the last three decades.

The literature available on MFIs across the globe can be broadly divided into two types. First, discussing and evaluating the importance of and the impact of micro financial services on the poverty level of the clients of MFIs while another set of studies tries to evaluate the social and financial performance of these organizations by employing different profitability indicators grouped into different categories such as sustainability indicators, portfolio quality indicators, efficiency indicators, assets and liability indicators while the social performance is represented by outreach indicators.[20] This study is concerned with the second

type of literature. The review of various related research studies is presented in this section of the paper.

Qayyum and Ahmad[21] studied the efficiency and sustainability of MFIs in South Asia for the year 2004 by using the Data Envelopment Analysis (DEA) technique. According to their DEA results, three MFIs were on the efficient frontier when constant return to scale was assumed, while eight MFIs were on the frontier of efficiency when they assumed variable returns to scale. Moreover, Kashaf Foundation, Khyber Bank and Khushhali Bank were found efficient under both constant and variable returns to scale assumptions. Their study suggested that most of the MFIs experienced economies of scale. 73 percent MFIs under input oriented measures and 47 percent MFIs under output oriented measures are at the stage of increasing returns to scale.

A recent study by Ahmad[22] has also analyzed the efficiency and performance of MFIs in Pakistan by using the data for the year 2003 and 2009 respectively. For this analysis he also used non-parametric data envelopment analysis (DEA) methodology. The variables used in this paper were: total assets, gross loan portfolio, number of personnel and the number of active borrowers. According to DEA analysis, three MFIs (FMFBL, Sungi, Taraqee) out of 12 MFIs were on the efficiency frontier in the year 2003 under constant returns to scale and four MFIs were efficient variable returns to scale assumptions. MFIs that were efficient under both constant and variable returns to scale were NMFB, TF, POMFB and RMFB in the year 2009. Moreover, four MFIs were efficient under constant while nine were efficient under variable returns to scale assumption in 2009. The author concluded that MFIs should provide financial services on sustainable basis.

Nghiem[23] has also used the DEA methodology for assessing the efficiency and effectiveness of microfinance sector in Vietnam. The paper hypothesizes that trade-off exists between financial stability and social development during the initial period microfinance sector development in Vietnam. From the social development aspect, the average technical efficiency score remains high as compared to the average technical efficiency regarding the financial aspect of the microfinance. Most of the microfinance institutions were efficient based on social and financial aspects but when taken into consideration separately.

A similar study has been done by Bi and Pandey[24] in India. The study has compared the financial performance of MFIs with the private and public commercial banks in India. For this purpose they have selected 24 5-stars MFIs rated by Mix Market. The results regarding the financial performance shows that both MFIs and public commercial banks have higher debt equity ratios due to their growth oriented policy. The private commercial banks have lower debt to equity ratios when compared to MFIs in India. Regarding the profitability, the results show that both Return on Assets (ROA) and Return on Equity (ROE) for commercial banks are higher than MFIs because banks are allowed to accept

deposits which is a source of generating income. Therefore, MFIs are lagging behind commercial banks on this front.

On the basis of efficiency, the operating expenses to total funds are higher for MFIs compared to commercial banks in India. These operating costs, according to Bi and Pandey[25], could be reduced by the use of modern technology.

The study by Agarwal and Sinha[26] took a sample of 22, 5-stars MFIs in India using the data for the year 2008 only. The methodology used is the difference of means test for the purpose of comparing the performance of these 5-star MFIs. The results show that 13 best performing MFIs out of 22 are following different models. However, the study shows that there is a similarity among them in risk coverage, debt to equity ratios, productivity, cost per borrower and operational self-sufficiency. About the managerial capability, the productivity indicators highlight variance in the managerial capability of different MFIs in India due to their age differences.

Aemiro and Mekonnen,[27] assesses the financial performance and sustainability of MFIs during the recent financial crisis with special reference to Amhara Credit and Saving Institution (ACSI) in Ethiopia. Their study analyzes the productivity, sustainability, profitability, portfolio quality, deposit mobilization, and outreach of the institution. The paper found that ACSI is operationally self-sufficient as well as profitable during 2005 to 2008. However, it's Return on Assets (ROA) and Return on Equity (ROE) declined in the year 2009. The institution's portfolio quality was in the comfort zone, however, its quality (PAR) deteriorated in 2008 and 2009, financial crisis years. The number of active borrowers per staff member was lower during 2007 and 2009 as compared to their preceding years. The decline in the number of active borrowers per personnel, according to them, was due to change in loan provision of ACSI from increasing the number of outreach to quality to reduce the risk of default.

The social and financial performance of MFIs also depends upon, among several other factors, some crucial macroeconomic and institutional factors. These macroeconomic and institutional variables positively or negatively influence the financial health of MFIs. A research by Imai *et al.,*[28] has investigated the effect of macroeconomic and institutional factors on the performance of MFIs by using the three Stage Least Squares (3SLS) econometric technique. The performance of MFIs was measured by indicators ROA, debt to equity ratio, portfolio at risk, write off ratio, and operating expense ratio. The institutional and macroeconomic variables included in the study were: GDP, credit to GDP ratio, control of corruption, rule of law, accountability and political stability. The study found that macroeconomic variables, GDP and credit to GDP ratio have positive influence on the financial performance of MFIs. They concluded that for a better financial performance and sustainability of MFIs, both macroeconomic and institutional factors are important.

MFIs always try to enhance their social and financial performance which apparently seems contradictory. Bassem[29] studied the trade-off between social and

financial performance of MFIs of the Middle East and North Africa (MENA) region from 2008 to 2010 panel data by taking the social outreach indicators and financial performance indicators using the Generalized Least Squares (GLS) technique. The results show that there is a negative impact of the size of MFI on the desire to serve the female borrowers. The regression results did not prove link between financial performance and the depth of outreach or social performance. The research did not find that having good financial performance of the MFI and serving the marginalized sections of the society by providing financial services are not contradictory. The results of the study confirm that MFIs can simultaneously achieve both the social objective and financial and profitability objective.

III. Data and Methodology:

The aim of the study is to assess and compare the social and financial performance of Islamic and conventional MFIs during 2005 to 2010 in Pakistan. The measurement of performance in MFIs is dominated by the use of performance variables and factors for measuring both social and financial performance.[30] The social and financial performance indicators we used in this paper are grouped into five main categories. These are efficiency and productivity, profitability, portfolio quality, social indicators and financial structure of the organization. Within these groups there are many different performance indicators. The following table shows a list of social and financial performance measures given against each category of indicators with their abbreviations used.

Table 1. Social and Financial Indicators

Category	Social and Financial Indicators used
1. Efficiency and Productivity	i. Cost Per Borrower (CPB) ii. Borrowers Per Staff Member (BPSM) iii. Operating Expenses to Assets (OEA) iv. Financial Revenue to Assets (FRA)
2. Portfolio Quality	i. Portfolio at Risk at 30 Days (PAR) ii. Write-Off Ratio (WOR)
3. Financial Structure	i. Debt to Equity Ratio (DER)
4. Profitability	i. Returns on Assets (ROA) ii. Returns on Equity (ROE) iii. Yield on Gross Portfolio (YGP)
5. Social and Outreach	i. Gross Loan Portfolio (GLP) ii. Number of Female Borrowers (NOFB) iii. Percentage of Female Borrowers (PFB) iv. Average Loan Balance Per Borrower (ALBPB)

The study is based on secondary data ranging from 2005 to 2012 which has been collected from Mix Market Database. Mix Market is the most reliable database currently available on MFIs and MFBs across the globe.[31]

Out of total 43 MFIs and MFBs reporting to Mix Market Database, we have selected only 4-star MFIs rated by Mix market, two from Islamic MFIs (Akhuwat and Wasil Foundation), and two from conventional MFIs (CSC and Asasah) for comparative analysis. The secondary data collected from Mix Market and annual reports of the MFIs concerned is then analyzed using averages, percentages, and other related financial ratios.

IV. Results:

The aim of the paper is to evaluate and compare the social and financial performance of Islamic and conventional microfinance institutions in Pakistan based on time series secondary data for the period 2005 to 2012. The study used five categories of different indicators for this purpose.

i. Efficiency and Productivity:

In order to evaluate the financial and institutional efficiency and productivity of various inputs, the study used four performance indicators. Table 2 and 3 contains the efficiency and productivity indicators of Islamic and conventional MFIs respectively. Measuring the cost efficiency of the organizations, we used cost per borrower (CPB) and operating expenses to assets (OEA) ratio. CPB is calculated by dividing total expenditure of the microfinance institution by the number of active borrowers. It provides a good measure of cost efficiency of an organization. It basically indicates the average cost of maintaining an active borrower of the institution. Table 1 shows that the CPB in case of Akhuwat is 19.5 US$ compared to 57 US$ in Wasil Foundation. Comparing with conventional MFIs, table 2 reveals that CPB is 48.84 US$ in Asasah while in CSC it is 47.75 US$. Akhuwat is more cost effective than all the three MFIs while CPB of the Wasil Foundation is high among them all.

Table 2. Efficiency and Productivity of Islamic MFIs in Pakistan

	Akhuwat				Wasil Foundation			
Year	CPB	BPSM	OEA	FRA	CPB	BPSM	OEA	FRA
2012	-	116	-	-	-	75	-	-
2010	26	95	21.02%	-	54	74	21.99%	22.22%
2009	18	94	15.36%	4.91%	60	52	14.93%	22.14%
2008	-	165	-	-	-	68	12.89%	19.96%
2007	-	-	-	-	-	-	-	-
2006	17	125	13.43%	9.47%	-	-	-	-
2005	17	105	12.91%	9.95%	-	-	-	-
Average	**19.5**	**116.67**	**0.1568**	**0.0811**	**57**	**67.25**	**0.166033**	**0.2144**

Source: Mixmarket.org

Operating expenses to assets (OEA) shows the division of the operating expenses by the total assets of the institution. The lower the OEA ratio indicates that the organization is more profitable. In other words, if the institution shows lower value for OAE ratio, the institution is more able to cover its expenses or costs effectively. Regarding the operating expenses to assets ratio (OEA), both the Islamic MFIs have lower OEA compared to conventional MFIs that indicates that Islamic MFIs are more cost effective than their conventional counterparts taken in this study. Moreover, Akhuwat again remains the most successful Islamic MFI among the selected sample in controlling operating expenses within the limits.

Table 3. Efficiency and Productivity of Conventional MFIs in Pakistan

	Asasah				CSC			
Year	CPB	BPSM	OEA	FRA	CPB	BPSM	OEA	FRA
2012	-	98	-	-	-	80	-	-
2010	55	95	35.91%	-	59	88	24.58%	32.79%
2009	34	136	19.74%	22.28%	52	76	22.83%	27.01%
2008	43	150	8.49%	10.23%	45	86	18.11%	23.92%
2007	50	-	26.12%	30.54%	-	-	21.31%	25.44%
2006	55	99	24.51%	23.33%	35	151	14.02%	16.42%
2005	56	36	25.11%	19.58%	-	81	-	-
Average	**48.84**	**102.333**	**0.2334**	**0.21192**	**47.75**	**93.667**	**0.2017**	**0.25116**

Source: Mixmarket.org

Institutional efficiency is represented by borrowers per staff member (BPSM) indicator. It is a ratio which shows that how much efficiently an employee of an organization able to serve the clients. Table 2 shows that an employee of Akhuwat has served 116.6 clients whereas that of Wasil Foundation has served 67.25 beneficiaries on average during 2005-12. Likewise, table 3 depicts that one employee of Asasah has covered 102.3 clients whereas a staff member of CSC has served 93.667 clients on average during the same period. Figure 1 indicates that one staff member of Akhuwat is the most productive among these organizations followed by Asasah and CSC; while the worker of Wasil Foundation is less efficient among them. So the workers of Akhuwat and Asasah are more professional and dedicated to their job and profession than CSC and Wasil Foundation.

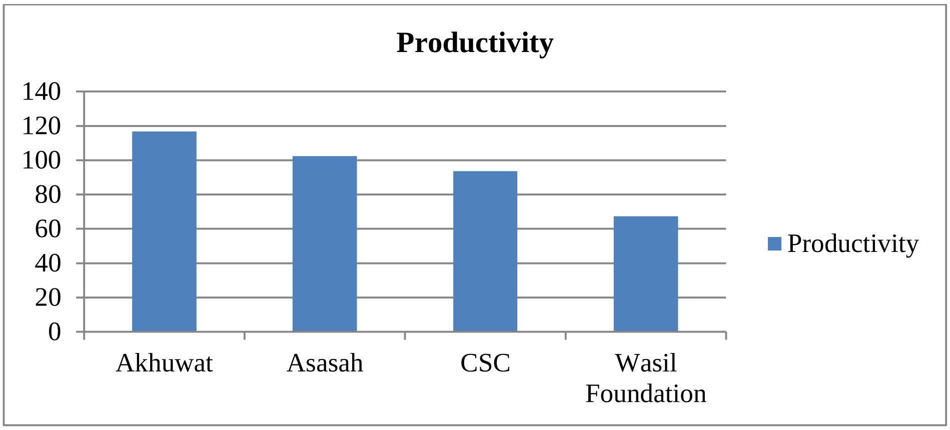


Figure 1. Average Productivity of an Employee of Islamic and Conventional MFIs in Pakistan

The last indicator used in the category of efficiency and productivity is financial revenue to assets ratio (FRA) which represents the financial efficiency of the organization. The average data for the period 2005-12 shows that the ratios for Akhuwat and Wasil Foundation are 0.0811 and 0.2144 respectively; while for Asasah and CSC they are 0.21192 and 0.25116 respectively. Collectively conventional MFIs are well ahead of Islamic MFIs showing a better prospect for conventional MFIs in Pakistan. CSC has a greater value of FRA followed by Wasil Foundation and then by Asasah, the conventional MFI. Akhuwat has to strive hard in this area to lessen the gap with its counterparts.

ii. **Portfolio Quality:**

The financial position of MFI is best represented by the portfolio quality. Generally, the loans provided by the MFIs are not supported by bankable security; therefore the quality of portfolio is quite important. To know about the portfolio quality, the study used two measures—portfolio at risk at 30 days (PAR) and write-off ratio (WOR). PAR basically measures the portion of the loan portfolio contaminated by arrears as a percentage of the total portfolio of the organization.[32] Table 4 and 5 shows the values of PAR and WOR for Islamic and Conventional MFIs in Pakistan respectively.

Table 4. Portfolio Quality of Islamic MFIs

	Akhuwat		Wasil Foundation	
Year	WOR	PAR at 30 Days	PAR at 30 Days	WOR
2012		0.73%	-	-
2010	0.29	0.00%	49.48%	9.02
2009	0.33	0.95%	21.14%	13.92

2008	-	0.93%	20.33%	3.14
2007	-	-	0.03%	3.26
2006	0.65	7.70%	-	0.2
2005	0.12	0.66%	-	-
Average	**0.3475**	**0.018283333**	**0.22745**	**5.908**

Source: Mixmarket.org

Asasah has the lowest value among the four selected MFIs followed by Akhuwat (0.01828). Wasil Foundation has the highest value (0.22745) followed by CSC (0.073425). There is no sign of concern because all the values of PAR are quite below 10 percent. Portfolio at risk (PAR) exceeding 10 percent should be a cause of concern and must be taken care off.[33] One of the main reasons for the lower PAR value of Asasah may be that it has lowered its risk by backing its loans with commercial assets at a greater rate than the rest of MFIs selected for this study.

PAR is the most commonly accepted and appropriate measure of portfolio quality. However, it can be easily manipulated; therefore this study has used another measure of portfolio quality, the write off ratio (WOR). It is calculated by dividing total write offs of the micro finance institution by the amount of average gross portfolio of institution. In simple words, it represents the loan that has been removed by the organization from its books due to doubts that they will recovered. The WOR values for Wasil Foundation and CSC are almost the same, while Akhuwat has the lowest value (0.003475) followed by Asasah (0.01338). During the period 2005-12, the average values of PAR at 30 days were low; however, they remained high when compared to write off ratios during the same period.

iii. Financial Structure

There can be two prime indicators which may be used to know about the financial structure and management of an organization. One is debt to equity ratio (DER) and another capital adequacy ratio (CAR).

The debt to equity ratio (DER) is an indicator of the financial institution's leverage. This ratio is calculated by the financial institution's long term obligations by the shareholder's equity. Higher value of DER shows a risky investment because higher the debt higher the amount of interest has to be paid by the microfinance institution.

Table 5. Financial Structure of Islamic and Conventional MFIs in Pakistan

	Islamic MFIs		Conventional MFIs	
	Akhuwat	Wasil Foundation	Asasah	CSC
Year	DER	DER	DER	DER
2012	-	-	-	-
2010	0.02%	72.26%	-3.08%	12.21%
2009	0.02%	13.23%	-7.73%	15.85%
2008	0.02%	9.23%	40.5%	9.39%
2007	-	9.98%	-14.86%	4%
2006	0.02%	17.22%	-25.27%	8.41%
2005	0.02%	16.06%	-15.68%	4.31%
Average	**0.02**	**0.229**	**-0.94053**	**0.09028**

Source: Mixmarket.org

From table 5 it can be seen that Wasil Foundation and CSC has higher debt equity ratios as compared to others. This indicates that Wasil Foundation and CSC have adopted a growth oriented strategy. Akhuwat, an Islamic MFI has a lower debt to equity ratio because of its socially oriented policy to serve the poorest of the poor and moreover, it heavily depends on grants and donations and has no inclination towards access to commercial debt fund. Hence, it has a lower DER when compared to other counterparts.

iv. **Profitability:**

To evaluate the profitability of MFIs, the study used three prime indicators, ROA, ROE and yield on gross portfolio (YGP). Table 6 and 7 presents ROA, ROE and YGP for Islamic and conventional MFIs respectively.

Table 6. Profitability Indicators of Islamic MFIs

	Akhuwat			Wasil Foundation		
Year	ROA	ROE	YGP	ROA	ROE	YGP
2012	-	-	-	-	-	-
2010	-17.94%	-18.28%	4.05%	-13.26%	-293.13%	61.47%
2009	-10.68%	-10.87%	4.52%	-10.00%	-119.41%	27.88%
2008	-	-7.31%	-	-3.39%	-35.58%	28.86%

2007	-	-	-	5.56	74.07 %	28.53%
2006	-5.14%	-5.22%	11.02%	1.22	88.34%	20.04%
2005	-3.66%	-3.74%	12.05%	2.80	61.12%	37.22%
Average	**-0.09355**	**-0.09084**	**0.0791**	**-0.37432**	**-0.2845**	**0.34**

Source: Mixmarket.org

Returns on assets (ROA) reflects how effectively and efficiently a management of microfinance institution generates income from all its available assets. It is calculated by dividing net income by average assets of the microfinance organization. Both the tables show that all MFIs have negative returns to their assets which indicate that they have made losses during 2005-12. Generally, microfinance institutions have small amount of assets which impact their returns and earnings. The negative value of ROA shows that MFIs in Pakistan are not profitable and heavily depends on grants and donations.

Like ROA, returns on equity (ROE) also indicate the profitability of microfinance organization. ROE shows the profit earned by the organization from the money invested by the shareholders of the institution. ROE is calculated by dividing net income by the average equity of the institution.

Table 7. Conventional MFIs' Profitability

	Asasah			CSC		
Year	ROA	ROE	YGP	ROA	ROE	YGP
2012	-	-	-	-	-	-
2010	-19.88%	73.75%	37.36%	1.69%	24.33%	43.51%
2009	-6.65%	77.77%	34.08%	-12.83%	-155.18%	32.89%
2008	-2.66%	-13.06%	17.17%	-11.99%	-81.75%	36.86%
2007	-7.60%	137.15%	43.32%	-2.95%	-19.52%	39.91%
2006	-11.94%	228.39%	36.84%	-2.38%	-18.81%	23.96%
2005	-15.05%	180.03%	29.96%	-	-	-
Average	**-0.1063**	**1.14005**	**0.3322**	**-0.05692**	**-0.50186**	**0.35426**

Source: Mixmarket.org

Again, all the MFIs except Asasah have negative values for their ROEs. Asasah has positive ROE (1.14005) which indicates that Asasah remained profitable through ROE during the period 2005-12, however still has to improve

its position. Both ROA and ROE should be positive if MFIs want to be profitable and sustainable.

Another best indicator of profitability is yield on gross portfolio (YGP). Yield on gross portfolio measures how much the organization receives in cash from its customers during a specific period of time. It shows the ability of the organization to generate income with which the organization tries to cover its financial and operating expenses. How can we calculate yield on gross portfolio is, divide the total cash revenue by the gross portfolio of the financial institution. Table 6 and 7 indicates the values of YGP for all the four MFIs. Both the Islamic and conventional MFIs in Pakistan have generated revenue and profit from their gross portfolios. Wasil Foundation and CSC have almost the same percentage of YGP followed by Asasah and Akhuwat. Wasil Foundation is the successful among Islamic MFIs which indicates that Wasil Foundation has earned from its five Shariah compliant models like Diminishing Musharakah (DM), Murabaha, Salam, Istisna and Ijarah.

v. Social Performance and Outreach:

To evaluate the social performance of Islamic and conventional MFIs, we have used outreach indicator (Gross Loan Portfolio), number of female borrowers (NOFB), percentage of female borrowers (PFB) and average loan balance per borrower (ALBPB). Table 8 and 9 presents the social performance indicators of both Islamic and conventional MFIs in Pakistan respectively.

Table 8. Social Performance Indicators of Islamic MFIs in Pakistan

	Akhuwat				Wasil Foundation			
Year	GLP	NOFB	PFB	ALBPB	GLP	NOFB	PFB	ALBPB
2012	6,485,604	17,151	0.329991919	125	1,561,404	2,281	0.25744921	176
2010	2,795,517	9,463	0.30000317	89	1,536,412	4,030	0.31247577	119
2009	1,752,586	6,048	0.300029765	87	1,833,251	2,508	0.281481481	206
2008	1,186,606	4,503	0.299940052	79	1,477,271	2,168	0.350072663	239
2007	-	-	-	-	1,722,195	-	-	-
2006	841,921	6,565	0.751660179	96	-	-	-	-
2005	637,195	2,968	0.489042676	105	-	-	-	-
Average	**2283238.167**	**7783**	**0.41177796**	**96.8343**	**1626106.6**	**2746.75**	**0.30036978**	**185**

Source: Mixmarket.org

Comparing the gross loan portfolio (GLP), Asasah has outperformed by securing 2,710,799 US$ loan portfolio followed by Akhuwat (2,283,238) and then CSC

with 2,038,586.8 loan portfolio in its kitty. Larger the amount of loan portfolio greater will be the capacity and ability of MFI to serve the deserved people.

Table 9. Social Performance Indicators of Conventional MFIs in Pakistan

	Asasah				CSC			
Year	GLP	NOFB	PFB	ALBPB	GLP	NOFB	PFB	ALBPB
2012	1,687,600	6,220	0.4457184	121	1,928,561	13,285	0.9808771	142
2010	1,929,721	18,941	1	102	2,242,015	12,088	0.9423137	175
2009	3,341,055	29,806	1	112	1,991,431	10,862	0.9070564	166
2008	3,199,254	28,732	1	111	2,419,425	14,784	0.9700151	159
2007	3,305,054	23,730	1	139	2,244,349		-	-
2006	3,675,656	27,711	1	133	2,401,222	15,254	1	157
2005	1,837,256	12,512	1	147	1,043,105	-	0	180
Average	**2710799**	**21093.14**	**0.920817**	**123.5714**	**2038586.857**	**13254.6**	**0.800044**	**163.1667**

Source: Mixmarket.org

Looking at the number female borrowers (NOFB), conventional MFIs performed well when compared to Islamic MFIs. Figure 2 indicates that 92 percent of the total borrowers of Asasah were female during 2005-12, while 80 percent of the total borrowers of CSC were female during the same period.

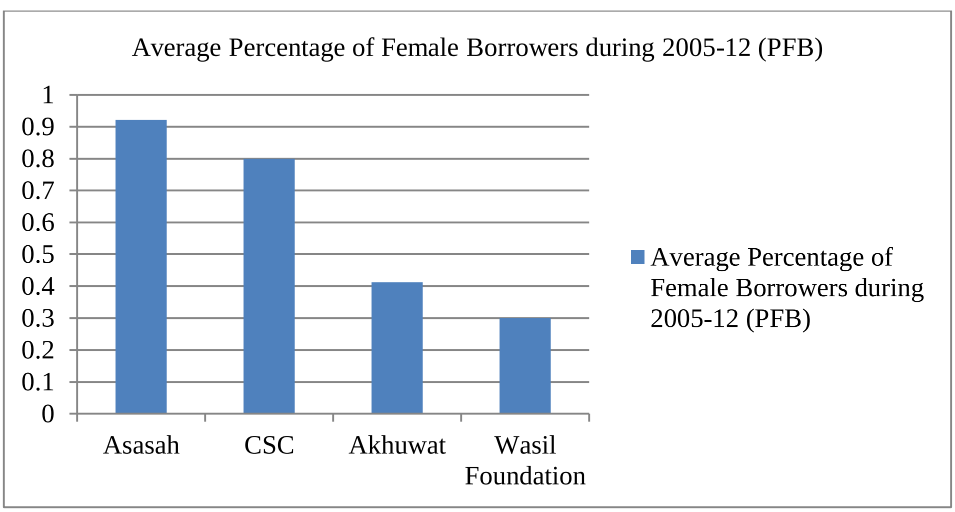


Figure 2. Average Percentage of Female Borrowers during 2005-12 in Pakistan

Female constitute round about 42 percent of the total number of borrowers of Akhuwat microfinance institution while that of Wasil Foundation 30 percent were the female borrowers during the same period.

The average loan provided by the MFIs impact the financial position of the client through various stages and means. Generally, it is believed that small loans do not impact the financial position of the customer of MFI because these small loans are largely being used for consumption smoothing by the households rather than for investment purposes.[34] Based on this premises, Wasil Foundation has provided 185 US$ on average to its clients during these 8 years followed by CSC and Asasah by 163.166 US$ and 123.57 US$ respectively. Akhhuwat has provided its clients with 96.83 US$ during 2005-12. In the year 2012, Wasil Foundation awarded 176 US$, the highest amount of loan among the sample MFIs, followed by CSC by providing 142 US$. Akhuwat remained on the third position by lending 125 US$ during the same period. However, we observe a decreasing trend in the yearly data for both Wasil Foundation and Asasah, while an increasing trend in that of Akhuwat and CSC.

V. Conclusion and Recommendations:

The study attempted to evaluate and compare the social and financial performance of Islamic and Conventional microfinance organizations in Pakistan for the period 2005-12. The study used five categories of different performance indicators covering both social and financial aspect of the MFIs.

The study found that Islamic MFIs were more cost effective compared to conventional MFIs based on CPB and OEA. Wasil Foundation of the Islamic MFIs was found a little bit more costly than conventional MFIs in terms of CPB for the period under study. The institutional efficiency based on BPSM indicator revealed that employee of Akhuwat remained the most productive followed by Asasah's, CSC and Wasil Foundation.

Financial efficiency was assessed by the ratio of financial revenue to assets. The study found that conventional MFIs performed well compared to Islamic MFIs for the period 2005-12. However, if we look at the yearly data, Wasil Foundation tried to improve its FRA since 2008, while there is a decreasing trend in FRA for Akhuwat which is not a good sign.

The financial performance of MFI is best represented by the portfolio quality for which we have used two indicators. The study gave us a mix result. Asasah from conventional MFIs has a good portfolio quality followed by Akhuwat of Islamic MFIs. However, both Islamic and conventional MFIs have no cause of concern regarding the portfolio quality.

The financial performance based on profitability indicators especially ROA, ROE of all the four MFIs is not encouraging. They have shown losses during the period 2005-12 on both ROA and ROE front. Asasah was the only institution who has positive ROE for the period concerned. However, on the other hand, all these four MFIs have made profit from their gross portfolios. Conventional MFIs have performed well compared to Islamic MFIs. Looking at the yearly values, there is a rising trend in the YGP for three MFIs except Akhuwat. YGP for Akhuwat is decreasing year by year even since 2005.

The social performance based on the indicators taken for this study, all MFIs have performed well. However, if the criteria for judging the social performance of microfinance institution is high percentage of female borrowers, then conventional MFIs have done a good job compared to Islamic MFIs in Pakistan.

Though the financial and social performance of both Islamic and conventional MFIs have improved with the passage of time in Pakistan, still they have to struggle hard on various fronts especially to improve their profitability based on ROA, and ROE measures to make the organizations profitable and sustainable.

Moreover, the study revealed that the successful operation of Akhuwat and Wasil Foundation like many others Islamic MFIs in Pakistan for the last more than a decade proved that Islamic microfinance institutions are viable and sustainable even in the absence of charging interest from their clients. So, the rich section of the society should divert their charity, sadaqat, and Zakat to these microfinance institutions to be able to help those who genuinely need financial help.

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